

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION
AND THE DISTRICTS
CHALMETTE, LOUISIANA**

FINANCIAL REPORT

December 31, 2001



Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 7/24/02

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St. Bernard Parish Government Department Of Public Works Water and Sewer Division and the Districts

December 31, 2001

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FINANCIAL SECTION

REBOWE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the St. Bernard Parish Council,
Chalmette, Louisiana.

We have audited the accompanying combined financial statements of the **St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts** (the "Division"), component units of the St. Bernard Parish Government, State of Louisiana, as of and for the year ended December 31, 2001, as listed in the table of contents. These combined financial statements are the responsibility of management of the St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the **St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts** as of December 31, 2001, and the results of their operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2002 on our consideration of the **St. Bernard Parish Government Department of Public Works Water and Sewer Division and Districts'** internal control over financial reporting and our test of their compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the combined financial statements of the Division taken as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the combined financial statements of the **St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts**. Such information, except for the Schedule of Metered Customers marked "Unaudited", on which we express no opinion, has been subjected to the procedures applied in the audit of the combined financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the combined financial statements taken as a whole.

Rebowe & Company

June 21, 2002

COMBINED BALANCE SHEET

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

December 31, 2001

ASSETS

Current

Cash and cash equivalents	\$ 674,221
Customer receivables, net of allowance for doubtful accounts of \$44,846	598,574
Unbilled charges	567,211
Grant receivables	162,750
Inventory	146,476
Prepaid expenses	15,391
	<hr/>
Total current assets	2,164,623

Restricted Assets

Cash and cash equivalents:	
Revenue bond debt service reserve	1,398,639
Revenue bond debt service account	593,643
Capital renewal and replacement and system improvements accounts	6,893,805
Sales tax bond debt service reserve	934,951
Sales tax bond debt service account	94,618
Construction fund	2,451,398
Inflow and infiltration	1,705,377
Other debt service accounts	820,352
Customer meter deposits	450,129
Sales tax receivable	634,957
Ad valorem taxes receivable	419,769
	<hr/>
Total restricted assets	16,397,638

Property, Plant and Equipment, Net of Accumulated Depreciation

57,358,135

Unamortized Debt Expense

317,852

Totals assets

\$ 76,238,248

See notes to combined financial statements.

LIABILITIES	
Current	
Payable from current assets:	
Accounts payable	\$ 1,858,467
Uninsured claims payable	7,929
Self insurance claims payable	-
Lease payable	1,000
Salaries payable	58,935
Due to St. Bernard Parish General Fund	434,188
Due to St. Bernard Parish Self Insurance Fund	-
	<hr/>
Total current liabilities payable from current assets	2,360,519
	<hr/>
Payable from restricted assets:	
Accounts payable	932,954
Bonds payable	1,590,000
Accrued interest payable	127,715
Customer deposits	1,285,563
Inspection deposits	13,300
	<hr/>
Total current liabilities payable from restricted assets	3,949,532
	<hr/>
Long-term liabilities	
Accrued vacation leave	235,397
Bonds payable	14,230,000
	<hr/>
Total long-term liabilities	14,465,397
	<hr/>
Total liabilities	20,775,448
	<hr/>
Contingencies	-
	<hr/>
FUND EQUITY	
Contributed Capital	13,805,752
	<hr/>
Retained Earnings	
Reserved:	
Reserve for contracts	5,413,127
Capital renewal and replacement and system improvements	3,763,066
Construction	19,450,850
Debt service	1,471,871
Inflow and infiltration	2,466,428
Unreserved	9,091,706
	<hr/>
Total retained earnings	41,657,048
	<hr/>
Total fund equity	55,462,800
	<hr/>
Total liabilities and fund equity	\$ 76,238,248
	<hr/>

COMBINED STATEMENT OF REVENUES AND EXPENSES

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the year ended December 31, 2001

Operating Revenues

User fees	\$ 9,896,974
Other operating revenues	<u>3,506,738</u>
Total operating revenues	<u>13,403,712</u>

Operating Expenses

Personal services and related benefits	2,677,880
Utilities	1,048,602
Contractual services, supplies, and materials	1,885,214
Professional services	101,812
Insurance and claims expense	1,187,507
Depreciation and amortization	2,394,817
Other	<u>436,699</u>
Total operating expenses	<u>9,732,531</u>

Operating Income

3,671,181

Nonoperating Revenues (Expenses)

Sales tax	3,524,808
Ad valorem tax for debt retirement	460,955
Interest earnings:	
Restricted assets	278,113
Current assets	396,787
Interest expense and bank fees	(900,582)
Deductions from ad valorem taxes for debt retirement	<u>(155,071)</u>
Total nonoperating revenues (expenses)	<u>3,605,010</u>

Net Income

\$ 7,276,191

See notes to combined financial statements.

COMBINED STATEMENT OF CHANGES IN FUND EQUITY

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the year ended December 31, 2001

	<u>Contributed Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Fund Equity Beginning of Year	\$ 14,270,352	\$ 33,492,210	\$ 47,762,562
Net income	-	7,276,191	7,276,191
Other - donated lines	424,047	-	424,047
Depreciation of assets purchased with contributed capital	<u>(888,647)</u>	<u>888,647</u>	<u>-</u>
Fund Equity End of Year	<u>\$ 13,805,752</u>	<u>\$ 41,657,048</u>	<u>\$ 55,462,800</u>

See notes to combined financial statements.

COMBINED STATEMENT OF CASH FLOWS

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the year ended December 31, 2001

Cash Flows From Operating Activities

Operating income	\$ 3,671,181
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	2,394,817
Increase in assets:	
Customer receivables	(152,868)
Unbilled charges	51,690
Grant receivables	(162,750)
Inventory	-
Prepaid expenses	9
Increase in liabilities:	
Accounts payable and accruals	2,116,969
Total adjustments	4,247,867
Net cash provided by capital financing activities	7,919,048

Cash Flows From Capital Financing Activities

Ad valorem taxes - debt retirement	460,955
Sales tax	3,524,808
Purchase of capital assets	(13,008,215)
Principal paid on bonds	(1,446,000)
Interest paid	(900,582)
Net cash used in capital financing activities	(11,369,034)

Cash Flows From Investing Activities

Interest on cash management activities	674,900
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Net Decrease in Cash and Cash Equivalents

(2,775,086)

Cash and Cash Equivalents

Beginning of year	18,792,219
End of year	\$ 16,017,133

Reconciliation to balance sheet accounts:

Unrestricted Cash	\$ 674,221
Revenue bond debt service reserve	1,398,639
Revenue bond debt service account	593,643
Capital renewal and replacement and system improvements accounts	6,893,805
Sales tax bond debt service reserve	934,951
Sales tax bond debt service account	94,618
Construction fund	2,451,398
Inflow and infiltration	1,705,377
Other debt service accounts	820,352
Customer meter deposits	450,129

Cash and cash equivalents, end of year	\$ 16,017,133
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See notes to combined financial statements

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2001**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The St. Bernard Parish Water and Sewer Commission was created by an intergovernmental agreement dated November 13, 1985, as ratified, confirmed and approved by Louisiana Revised Statute 33:7802 which became effective July 2, 1986. The statute declared the Commission to be a body politic and political subdivision of the State of Louisiana. It also gave the Commission the power to tax, incur debt, and issue bonds. The powers of the Commission were exercised within the boundaries of St. Bernard Parish. The Commission's major operation was to provide water and sewerage services for the parish of St. Bernard. The Commission was composed of seven members representing the participating entities and assumed control of operations and began providing services effective with the close of business on December 31, 1985. Prior to that time, such water and sewerage services had been provided by five separate entities: St. Bernard Water District No. 1, St. Bernard Water District No. 2, St. Bernard Sewer District No. 1, St. Bernard Sewer District No. 2, and St. Bernard Sewer District No. 1-2. On December 31, 1985, St. Bernard Sewer District No. 1-2, a contractual entity that had performed sewerage operations for St. Bernard Sewer Districts No. 1 and No. 2, was dissolved. The other water and sewerage districts had separate boards which served primarily as tax levying entities.

On November 1, 1996, the St. Bernard Parish Water and Sewer Commission was consolidated and merged into the St. Bernard Parish Government (the Parish Government) and is now known as the St. Bernard Parish Government Department of Public Works Water and Sewer Division (the Division). The Commission was abolished and the parish council assumed all rights, revenues, resources, authority and obligations of the Commission. The water and sewer districts still exist as separate political subdivisions; however, the parish council is the governing authority. Each district retained its rights, revenues, resources, jurisdiction, authority, indebtedness and any other obligations it possessed prior to November 1, 1996, including the authority to continue to levy ad valorem taxes.

The Division consists of two water plants that monitor and maintain 110 sewer lift stations. It also operates four sewerage treatment plants, one sewerage oxidation pond, and two sewerage treatment package plants. The Division has 89 employees at December 31, 2001, of which a majority are covered by a collective bargaining agreement which expires in July 2004, with a one year renewal option.

ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The accounting policies of the Division conform to generally accepted accounting principles (GAAP) applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant accounting policies.

a) Reporting Entity

Government Accounting Standards Board (GASB) Statement No. 14 has established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship between the primary government and the other organization. In addition, an organization which is fiscally dependent on the primary government or has a potential to provide specific financial benefits to the primary government should be included in the reporting entity.

Because the parish government is the governing board of the Division, the Division is determined to be a component unit of the St. Bernard Parish Government, the governing body of the parish and the governmental body with oversight responsibility. The accompanying combined financial statements present information only on the funds maintained by the Department of Public Works Water and Sewer Division including Districts and do not present information on the Parish Government, the general government services provided by that governmental unit, or the other governmental units that comprise the governmental reporting entity.

Annually, the St. Bernard Parish Government issues audited general purpose financial statements which include the activity contained in the accompanying combined financial statements.

b) Basis of Presentation

The accompanying combined financial statements include the St. Bernard Parish Government Department of Public Works Water and Sewer Division, a department of the St. Bernard Parish Government. The combined financial statements also include the Districts which are separate component units of the parish government. The Division is responsible for water and sewerage operations of the Parish and the Districts (St. Bernard Water District No. 1, St. Bernard Water District No. 2, St. Bernard Sewer District No. 1, and St. Bernard Sewer District No. 2). The individual districts levy ad valorem taxes for the retirement of outstanding bonds.

ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Fund Accounting

The Division is organized and operated on a fund basis whereby a separate set of self-balancing accounts (enterprise funds) is maintained that comprises its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

d) Basis of Accounting

1) Revenues

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the combined balance sheet. The Division's accounts are reported on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

The Division applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

The Enterprise Fund uses the following practices in recording certain revenues and expenses:

Customers are billed monthly and the accompanying combined financial statements provide for the accrual of charges billed but not collected, as well as for unbilled charges through the date of the combined balance sheet.

Ad valorem taxes and the related state revenue sharing (which is based on population and homesteads in the parish) are recorded in the year the taxes are assessed. Ad valorem taxes are assessed on a calendar year basis, become due on November 15 of each year, and become delinquent on December 31. The taxes are generally collected in December of the current year and January through March of the following year.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Basis of Accounting (Continued)

1) Revenues (Continued)

On November 3, 1998, the citizens of St. Bernard Parish, by a special election, approved a ½% sales tax, commencing January 1, 1999. The proceeds for this tax are dedicated for improvements to the sewer and water system of the Division, including authority to fund bonds with the tax, provided that at least 25% of the annual revenues of the sales must be expended to correct inflow and infiltration in sewerage collection lines, or to repair damage caused thereby, unless required for debt service on bonds or otherwise approved by at least two-thirds of the Council.

Substantially all other revenues are recorded when earned.

2) Expenses

Salaries are paid biweekly and are accrued at year end.

Unamortized debt expense of the Division is comprised of costs associated with the 1994 Revenue Bond Issues and the 1999 Sales Tax Bond Issue. The cost of issuance on the 1994 Revenue Bond Issue of \$266,751 is amortized using the straight-line method over the 18-year life of the bond. The cost of the issuance on the 1999 Sales Tax Bond Issue of \$72,701 is amortized using the straight-line method over the 20-year life of the bond. The remaining unamortized debt expense at December 31, 2001 is \$279,577.

Unamortized debt expense of Sewer District No. 1 is comprised of costs associated with the 1991 General Obligation Refunding Bond Issue. The cost of issuance of \$36,700 is amortized using the straight-line method over the 11 year life of the bond. The remaining unamortized debt expense at December 31, 2001 is \$3,723.

Unamortized debt expense of Sewer District No. 2 is comprised of costs associated with the 1991 General Obligation Refunding Bond Issue. The cost of issuance on the 1991 General Obligation Bond Issue of \$147,300 is amortized using the straight-line method over the 13-year life of the bond. The remaining unamortized debt expense at December 31, 2001 is \$34,552.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Basis of Accounting (Continued)

2) Expenses (Continued)

Total amortization expense for the year ended December 31, 2001 was \$30,421.

Depreciation expense on all exhaustible fixed assets is determined by the straight-line method using the estimated useful life and is recorded as an operating expense during the accounting period.

Substantially all other expenses are recognized at the time the liability is incurred.

e) Accounts Receivable

The Division has established an allowance for doubtful accounts for write-off of delinquent accounts. The allowance is based on management's best estimate of uncollectible amounts. The allowance for doubtful accounts at December 31, 2001 is \$44,846.

f) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

g) Cash and Cash Equivalents

Cash includes amounts in petty cash, demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in certificates of deposit. Under state law, the Division may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

h) Inventory

The Division maintains an inventory of parts and expendable supplies that is valued at the lower of cost or market. The inventory is recognized as an expense when consumed.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Interfund Receivables and Payables

Interfund receivables and payables between the Division and Districts have been eliminated on the combined balance sheet at December 31, 2001.

j) Restricted Assets

Certain proceeds of the Division's revenue bonds and sales tax bonds as well as certain resources set aside for their repayment, are classified as restricted assets on the combined balance sheet because their use is limited by applicable bond covenants.

k) Fixed Assets and Long-Term Liabilities

Fixed assets of the Division are included on the combined balance sheet of the funds. Interest costs incurred during construction are not capitalized. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Fixed assets, other than those donated, are recorded at cost.

Donated fixed assets, primarily water and sewer lines constructed by independent contractors, are recorded at estimated fair market value as of the date donated. Fixed assets are reported on the balance sheet net of accumulated depreciation.

Depreciation is computed using the straight-line method, over the following useful lives, stated in years:

	<u>Water and Sewer Division</u>	<u>Water District No. 1</u>	<u>Water District No. 2</u>	<u>Sewer Districts</u>
Pipeline system	100	100	100	5 - 20
Buildings and improvements	50 - 100	50	33	25
Machinery and equipment	5 - 10	4 - 10	8 - 10	10 - 20
Water tanks	50 - 100	33	50	-
Meter boxes	33 - 66	33	33	-

Long-term liabilities are recognized within the enterprise funds.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Fund Equity

1) Contributed Capital

The Division's grants received that are restricted for the acquisition or construction of capital assets are recorded as contributed capital. Donated lines are also recorded as contributed capital. Contributed capital is amortized based on the depreciation recognized on that portion of the assets acquired from such contributions.

2) Reserves

The Division's reserves represent those portions of fund equity legally segregated for a specific future use.

m) GASB Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," provides that Proprietary Funds may apply all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements; Statements and Interpretations of the Financial Accounting Standard Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure. The Division has elected to apply only FASB, APB and ARB materials issued on or before November 30, 1989.

n) Compensated Absences

Employees earn two to five weeks of paid vacation each year; up to 90 days will be paid in cash at retirement or termination if proper notice is given. If proper notice is not given, up to 10 days may be subtracted from their accumulated vacation and the remainder is paid in cash. Employees earn 12 days of sick leave each year, which may accumulate to a maximum number of 90 days. At December 31, 2001, the accrued vacation leave was \$235,397.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 2 - DEPOSITS

State law requires the deposits (cash and certificates of deposits) of all political subdivisions be fully collateralized at all times. Acceptable collateralization includes FDIC insurance and the market value of securities purchased and pledged to the political subdivision. Obligations of the United States, the State of Louisiana, and certain political subdivisions are allowed as security for deposits. Obligations furnished as security must be held by the political subdivision, or with an unaffiliated bank, or with a trust company for the account of the political subdivision. In accordance with state law all cash and deposits were collateralized.

Cash and deposits are categorized into three categories of credit risk.

Category 1 includes deposits covered by federal depository insurance or by collateral held by the Division or its agent, in the Division's name.

Category 2 includes deposits covered by collateral held by the pledging financial institution's trust department, or its agent in the Division's name.

Category 3 includes deposits covered by collateral held by the pledging financial institution, or its trust department or agent but not in the Division's name, and deposits which are uninsured or uncollateralized.

At year end the carrying amount and the bank balances of deposits of the Division and its Districts are as follows:

	<u>Bank Balances Category</u>			<u>Book</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>
Cash	<u>\$ 100,000</u>	<u>\$15,813,918</u>	<u>\$ -</u>	<u>\$16,017,133</u>

There were no certificates of deposit at December 31, 2001.

At December 31, 2001, cash in excess of the FDIC insurance was collateralized by securities held by unaffiliated banks for the account of the depositors. The Governmental Accounting Standards Board (GASB), which promulgates the standards for accounting and financial reporting for state and local governments, considers these securities uncollateralized. Even though the pledged securities are considered uncollateralized under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the depositor that the fiscal agent has failed to pay deposited funds upon demand.

ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001

NOTE 3 – AD VALOREM TAXES

Ad valorem taxes are levied each November 1st on the assessed value listed as of the prior January 1st for all real property, merchandise and movable property located in the Parish. Assessed values are established by the St. Bernard Parish Assessor's Office and the State Tax Commission at percentages of actual value as specified by Louisiana law. A reevaluation of all property is required to be completed no less than every four years. The last reevaluation was completed for the list as of January 1, 2000. Taxes are due and payable November 15th of each year and become delinquent December 31st with interest being charged on payments after January 1st. Taxes can be paid through the tax sale date, which is the last Wednesday in June. Properties for which taxes have not been paid are sold.

The following is a summary of authorized and levied ad valorem taxes for debt service for the year ended December 31, 2002:

	<u>Authorized Millage</u>	<u>Levied Millage</u>
Sewer District No. 2	Variable	1.00

NOTE 4 - CHANGE IN PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the changes of the Division's fixed assets for the year ended December 31, 2001.

	<u>Balance January 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2001</u>
Land	\$ 141,569	\$ -	\$ -	\$ 141,569
Pipeline system	55,103,125	3,279,255	402,052	57,980,328
Plant, machinery, and equipment	36,324,281	919,625	3,086,889	34,157,017
Construction in progress	<u>4,447,710</u>	<u>14,168,178</u>	<u>1,561,834</u>	<u>17,054,054</u>
Total property, plant, and equipment	<u>96,016,685</u>	<u>18,367,058</u>	<u>5,050,775</u>	<u>109,332,968</u>
Less accumulated depreciation	<u>(49,549,720)</u>	<u>(2,584,397)</u>	<u>159,284</u>	<u>(51,974,833)</u>
Net property, plant, and equipment	<u>\$ 46,466,965</u>	<u>\$ 15,782,661</u>	<u>\$ 4,891,491</u>	<u>\$ 57,358,135</u>

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 4 - CHANGE IN PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

The composition of property, plant, and equipment at December 31, 2001 by entity, is as follows:

Division	\$ 59,086,592
Water District No. 1	20,774,014
Water District No. 2	2,128,277
Sewer District No. 1	9,775,707
Sewer District No. 2	<u>17,568,378</u>
Total property, plant, and equipment	<u>\$109,332,968</u>

Depreciation expense totaled \$ 2,364,396 for the year ended December 31, 2001.

NOTE 5 - DEFINED BENEFIT PENSION PLAN

Employees of the Division are members of the Parochial Employees' Retirement System of Louisiana ("System"), a multiple-employer (cost sharing), public-employee retirement system (PERS). The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the Division are members of Plan A. For the year ended December 31, 2001, the total payroll for employees covered by the System under Plan A was \$2,270,397.

Plan Description - The Water and Sewer Division contributes to Plan A of the Parochial Employees' Retirement System of Louisiana, a cost-sharing multiple-employer defined benefit public employee retirement system (PERS), which is controlled and administered by a separate Board of Trustees. The System provides retirement, deferred and disability benefits, survivor's benefits and cost of living adjustments to plan members and beneficiaries. Act 205 of the 1952 Louisiana Legislative Session established the plan.

The System is governed by Louisiana Revised Statutes 11:1901 through 11:2015, specifically, and other general laws of the State of Louisiana. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Parochial Employees' Retirement System of Louisiana, P.O. Box 14619, Baton Rouge, Louisiana 70898-4619.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy - Plan members are required to contribute 9.5% of their annual-covered salary and the Water and Sewer Division is required to contribute at an actuarially determined rate. The current rate is 7.75% of annual payroll. The contribution requirements of plan members and the Water and Sewer Division are established and may be amended by state statute. The Water and Sewer Division's contributions to the System for the years ended December 31, 2001, 2000, and 1999 were \$205,137, \$167,325, and \$172,484 respectively, equal to the required contributions for each year.

NOTE 6 - OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 5, the Division provides post retirement health care benefits, in accordance with the Division's personnel policy, to all employees who retire either: 1) on or after attaining age 60 with at least 10 years of service, or 2) on or after attaining age 55 with at least 25 years of service, or 3) on or after attaining any age with at least 30 years of service. As of the year end, 19 retirees have met those eligibility requirements. These benefits for retirees and similar benefits for active employees are provided through an insurance company whose monthly premiums are paid by the Division.

NOTE 7 - OPERATING LEASES

The Division receives lease income under the following agreements:

<u>Lease</u>	<u>Yearly Income</u>	<u>Lease Period</u>	<u>Beginning Date</u>	<u>Option</u>
Right-of-way agreement	\$2,500	10 years	September 1, 1995	Additional 10 year term
Tower lease #1	6,000	5 years	August 9, 1995	4 additional 5 year term
Tower lease #2	7,200	5 years	June 26, 1996	4 additional 5 year term
Tower lease #3	13,800	5 years	August 22, 1996	4 additional 5 year term
Tower lease #4	13,200	5 years	November 19, 1998	4 additional 3 year term
Tower lease #5	12,500	5 years	July 28, 1998	4 additional 3 year term
Tower lease #6	9,600	5 years	December 23, 1997	4 additional 3 year term
Tower lease #7	2,400	10 years	October 13, 1992	3 additional 5 year term

The Division also granted the St. Bernard Parish School Board the use of property at St. Bernard Highway and Palmisano Boulevard free of rent for a period of thirty years.

ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001

NOTE 7 - OPERATING LEASES (CONTINUED)

The future minimum rentals for the next five years and in the aggregate are:

Year Ending December 31,	
2002	\$ 37,400
2003	29,895
2004	8,500
2005	8,500
2006	-
Thereafter	<u>-</u>
Total	<u>\$ 84,295</u>

Rental income for the year ended December 31, 2001 was \$67,200.

NOTE 8 - LONG-TERM LIABILITIES

The following is a summary of long-term liabilities and the current portion due at December 31, 2001:

	Water and Sewer Division	<u>Sewer District</u>		<u>Total</u>
		<u>No. 1</u>	<u>No. 2</u>	
Public improvement, general obligation, revenue and sales tax bonds payable	\$ 14,620,000	\$ 175,000	\$ 1,025,000	\$ 15,820,000
Less current portion:				
Public improvement, general obligation, revenue and sales tax bonds payable	<u>1,165,000</u>	<u>85,000</u>	<u>340,000</u>	<u>1,590,000</u>
Long-term portion	<u>\$ 13,455,000</u>	<u>\$ 90,000</u>	<u>\$ 685,000</u>	<u>\$ 14,230,000</u>

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)

Public improvement bonds, general obligation bonds, sales tax bonds, and revenue bonds are comprised of the following individual issues:

a) Public Improvement and General Obligation Bonds

Public improvement and general obligation bonds are secured by the full faith and credit of the various Districts and are financed through the levy and collection of ad valorem taxes.

The bonds were issued to construct improvements and extensions to the sewerage system. Public improvement and general obligation bonds are comprised of the following individual issues:

- 1) \$675,000 General Obligation Refunding Bonds of the Sewer District No. 1 issue of September 1, 1991, due in annual installments of \$85,000 to \$90,000 bearing interest rates of 6.4% to 6.5% through March 1, 2003. Amount outstanding - \$175,000.
- 2) \$240,000 Public Improvement Bonds of the Sewer District No. 2 issue of June 1, 1971, due in annual installments of \$1,000, bearing an interest rate of 6.0% through February 1, 2001. Amount outstanding - \$0.
- 3) \$3,295,000 General Obligation Refunding Bonds of the Sewer District No. 2 issue of September 1, 1991, due in annual installments of \$170,000 to \$340,000 bearing interest rates of 6.4% to 6.65% through March 1, 2005. Amount outstanding - \$1,025,000.

b) Sales Tax Bonds

On December 1, 1999, Sales Tax Bonds were issued for \$9,950,000. The interest rate on the bonds is 5.35% and the bonds mature on December 1, 2019 with debt service payments due in annual principal installments ranging from \$310,000 to \$805,000. The balance outstanding at December 31, 2001 is \$9,395,000.

The bonds were issued for the purpose of financing improvements to the sewer and water systems of the Division. The bonds are special and limited obligations of the Parish for the Division, secured by and payable from a pledge and dedication of a ½% sales tax levied by the Parish for the Division.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)

b) Sales Tax Bonds (Continued)

The gross proceeds of the sales tax are collected by the St. Bernard Parish Sheriff, who withholds a portion to pay the reasonable and necessary expenses of collection and administration of the tax. After payment of such expenses, the remaining balance of the revenues of the tax are paid to the Parish for the Division and constitute a dedicated fund of the Division, from which appropriations and expenditures by the Division shall be made solely for the purposes designated in the proposition authorizing the levy of the tax, including the payment of the bonds. The bond resolution requires the Water and Sewer Division to establish and maintain the following accounts:

- 1) A debt service account with monthly deposits of one-twelfth of the principal falling due on the next principal payment date and one-sixth of the interest falling due on the next interest payment date.
- 2) A debt service reserve account equal to the lesser of a) 10% of the original proceeds of the bonds or b) the maximum principal and interest requirements for any succeeding bond year.

Management has established the following accounts to report the use of sales tax proceeds:

- 1) A reserve for inflow and infiltration account equal to 25% of the annual revenues of the tax to correct inflow and infiltration in sewage collection lines, or to repair damage caused thereby, unless required for debt service on bonds or otherwise approved by at least two-thirds of the total membership of the Parish Council.
- 2) A reserve for system improvements account with monthly transfers which represent the ½% sales tax being levied and collected.

The Division has established and maintains these accounts, and at December 31, 2001, the cash and cash equivalents balances in the debt service account, the debt service reserve account, the inflow and infiltration account and the system improvement account are \$94,617, \$934,951, \$1,705,377 and \$3,130,739, respectively. The account balances exceed the minimum requirements of the bond indenture.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)

c) Revenue Bonds

On April 1, 1994, \$7,195,000 of the 1986 Revenue Bond was defeased. The bonds had interest rates ranging from 7.50% to 8% and debt service payments from \$400,000 to \$990,000. As a result of the defeasance, \$7,950,000 of Series 1994 Revenue Refunding Bonds was issued. The interest rate on the new bonds ranges from 4.65% to 5.2% and the bonds mature on August 1, 2006 with debt service payments due in annual principal installments from \$735,000 to \$940,000. The balance outstanding at December 31, 2001 is \$4,275,000.

On July 31, 2001, \$915,000 of the 1991 Revenue Bonds was defeased. The bonds required annual principal installments of \$55,000 to \$800,000, with interest rates between 6.0% and 7.10%. As a result of the defeasance, \$ 950,000 of 2001 Revenue Refunding Bonds was issued with an interest rate of 4.89%. Annual principal installments range from \$65,000 to \$130,000 and the bonds mature on August 1, 2011. The balance outstanding at December 31, 2001, is \$950,000.

The bonds are payable solely from and secured by a first lien upon and a pledge of the net revenues of the system. The revenues pledged by the Water and Sewer Division include all fees, rents, charges, and other income derived, or to be derived by or for the account of the Division from, or for, the ownership, operation, use, or services of the system and any other amounts paid into and credited to the revenue fund created by the 1991 and 1994 revenue bond resolutions. Such revenues include, but are not limited to, proceeds of any ad valorem taxes received by the Division pursuant to the terms of the intergovernmental agreement. Such revenues exclude (a) federal, state, or local government monies received for capital improvements to the system and (b) amounts necessary to pay the reasonable and necessary current expenses of operating and maintaining the system.

Pursuant to a resolution, the Water and Sewer Division has agreed in each bond year to fix, establish, and collect such rates and collect such fees, rentals, or other charges for all services, after making due allowance for delinquencies in collection and after providing for the payment of the reasonable and necessary expenses of operating and maintaining the system, to produce net revenues (1) that are sufficient to pay debt service on all outstanding bonds and to maintain the funds and accounts established in the resolution and (2) that result in each fiscal year in the greater of (a) the sum of debt service payable on the bonds in the ensuing fiscal year plus any required deposit to the Debt Service Reserve Fund or (b) a ratio of net revenues to average annual debt service of not less than 1.25 to 1. The ratio of net revenues to average annual debt service for the year ended December 31, 2001, is 5.19 to 1. The ratio is more than the minimum requirements of the bond indenture.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)

c) Revenue Bonds (Continued)

The bond agreement requires the Water and Sewer Division to establish and maintain the following accounts:

- 1) A debt service reserve account with the sum equal to the maximum annual debt service on the bonds.
- 2) A debt service account with monthly deposits of one-twelfth of the annual principal and interest payment to pay promptly and fully the principal and interest on the bond as it becomes due and payable.
- 3) A renewal and replacement account with monthly deposits of 5% of the prior month's operating expenses, which will be used to care for extensions, additions, improvements, renewals, and replacements necessary to properly operate the system.

The Division has established and maintained these accounts, and at December 31, 2001, the cash and cash equivalent balances in the debt service reserve account, the debt service account, and the renewal and replacement account are \$1,398,639, \$593,643 and \$3,763,066 respectively. The account balances in the debt service reserve, debt service and renewal and replacement accounts exceed the minimum requirements of the bond indenture.

The following is a summary of the bonds payable transactions for the year ended December 31, 2001:

	Water and Sewer Division	Sewer District		
		No. 1	No. 2	Total
Outstanding at January 1, 2001	\$ 15,655,000	\$ 250,000	\$ 1,361,000	\$ 17,266,000
Additions	950,000	-	-	950,000
Payments	<u>(1,985,000)</u>	<u>(75,000)</u>	<u>(336,000)</u>	<u>(2,396,000)</u>
Outstanding at December 31, 2001	<u>\$ 14,620,000</u>	<u>\$ 175,000</u>	<u>\$ 1,025,000</u>	<u>\$ 15,820,000</u>

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)

c) Revenue Bonds (Continued)

A schedule of annual debt service requirements for both the public improvement and general obligation bonds and the revenue bonds for each of the next five years and in the aggregate is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 1,590,000	\$ 825,782	\$ 2,415,782
2003	1,640,000	741,664	2,381,664
2004	1,450,000	661,714	2,111,714
2005	1,505,000	585,496	2,090,496
2006	1,405,000	511,004	1,916,004
2007 - 2019	<u>8,230,000</u>	<u>3,267,968</u>	<u>11,497,968</u>
Totals	<u>\$ 15,820,000</u>	<u>\$ 6,593,628</u>	<u>\$ 22,413,628</u>

Advance Refunding

On July 31, 2001, the Division issued \$950,000 in Water and Sewer Revenue Refunding Bonds, Series 2001, to advance refund \$915,000 of outstanding Water and Sewer Revenue Bonds, Series 1991 with interest rates ranging between 6.0% and 7.10%. The proceeds were forwarded to an escrow agent for full payment of principal, interest, and the premium necessary to redeem the 1991 series bonds. As a result, that portion of the 1991 Series Bonds is considered defeased in substance, and the Division has removed the liability from its accounts. At December 31, 2001, the balance of the defeased portion of the bonds was \$0.

The advance refunding reduced total debt service payments over the next 10 years by approximately \$1,324,657. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$66,411.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 9 - RESERVED RETAINED EARNINGS

The St. Bernard Water and Sewer Division has established five reserves as reflected on the balance sheet, as follows:

a) Reserve For Capital Renewal and Replacement and System Improvements

1) Sales Tax Bonds

The account accumulates monies from the sales tax fund which represent the ½% sales tax being levied and collected. The reserved retained earnings are \$3,763,066 at December 31, 2001.

b) Reserve For Construction

1) Revenue Bonds

The account accumulates monies to care for extensions, additions, improvements, renewals, and replacements necessary to properly operate the sewerage system. Such monies will also be available to pay the principal and interest on outstanding bonds in the event funds are not sufficient in the debt service and debt service reserve accounts. Minimum deposits are made monthly to the reserve account from revenues in an amount equal to 5% of the prior month's operating expenses. In addition, net assets acquired with the Water and Sewer Division's funds are included in the reserve per board resolution. The reserved retained earnings are \$3,075,425 at December 31, 2001.

2) Sales Tax Bonds

The account is established in accordance with bond requirements and the Parish's resolution for the Division. The reserved funds pay for construction projects required by the United States Environmental Protection Agency. Upon completion of the projects, any remaining funds may be reserved for debt service to satisfy any deficiency in funds needed to pay principal and interest on the Sales Tax Bonds issue. The reserved retained earnings at December 31, 2001 are \$16,375,425.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 9 - RESERVED RETAINED EARNINGS (CONTINUED)

c) Reserve For Debt Service

1) Revenue Bonds

This reserve consists of two accounts. 1) The debt service account accumulates money from the net utilities revenues for the payment of interest and principal on the 1994 revenue bonds. 2) The debt service reserve account, consisting of \$1,111,165 of bond proceeds, is set aside for the benefit of bondholders. As of December 31, 2001, the reserved retained earnings are \$147,302.

2) Sales Tax Bonds

This reserve consists of two accounts. 1) The debt service account accumulates money from the net collection of sales tax for the payment of interest and principal on the sales tax bonds. 2) The debt service reserve account accumulates interest on the \$848,068 of bond proceeds set aside for the benefit of bondholders. The reserved retained earnings at December 31, 2001 are \$1,324,569.

d) Reserve For Inflow and Infiltration

1) Revenue Bonds

There is no reserve for inflow and infiltration related to the revenue bonds.

2) Sales Tax Bonds

The account is established in accordance with a special election held in November 1998. The election authorized the Parish to levy a ½% sales tax for improvements to the sewer and water system, including authority to fund bonds with the tax, provided that at least 25% of the annual revenues of the tax must be expended to correct inflow and infiltration in sewage collection lines or to repair damage caused thereby, unless required for debt service on bonds or otherwise approved by at least two-thirds of the total membership of the Council. As of December 31, 2001 the reserved retained earnings are \$2,466,428.

e) Reserve for Contracts

The reserve for contracts is \$5,413,127.

Note 10 - PROPRIETARY FUNDS (SEGMENT INFORMATION)

Segment information for the Water and Sewer Division's enterprise funds is as follows:

	Water and Sewer Division	Water District		Sewer District		Total
		No. 1	No. 2	No. 1	No. 2	
Operating revenues	\$ 13,399,233	\$ -	\$ -	\$ 1,814	\$ 2,665	\$ 13,403,712
Operating expenses:						
Depreciation and						
amortization	1,429,992	328,211	39,382	274,959	322,273	2,394,817
All other	7,336,757	-	-	957	-	7,337,714
Operating income (loss)	4,632,484	(328,211)	(39,382)	(274,102)	(319,608)	3,671,181
Sales and ad valorem tax revenues	3,524,808	-	-	107,418	353,537	3,985,763
Net income (loss)	7,843,391	(325,036)	(35,121)	(178,342)	(28,701)	7,276,191
Property, plant and						
equipment additions	13,008,215	-	-	-	-	13,008,215
Donated lines	424,047	-	-	-	-	424,047
Bonds payable:						
Payable from						
operating revenue	1,165,000	-	-	85,000	340,000	1,590,000
Payable from						
other sources	13,455,000	-	-	90,000	685,000	14,230,000
Net working capital (deficiency)	(127,222)	(68,653)	-	(21)	-	(195,896)
Total assets	60,649,155	9,848,430	741,796	2,175,971	2,822,896	76,238,248
Contributed capital	8,543,028	3,362,425	-	882,056	1,018,243	13,805,752
Total fund equity	41,168,409	9,779,777	741,796	1,997,187	1,775,631	55,462,800

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 11 - CUSTOMER DEPOSITS

The St. Bernard Parish Government continues the process of replenishing the meter deposit account and has not used any of the deposits for expenses or capital expenditures since the consolidation of the Water and Sewer Division into the parish government in 1997. At December 31, 2001, the customer meter deposits cash account had a balance of \$458,571 and meter liability of \$1,243,362.

NOTE 12 - COMPENSATION PAID TO COUNCIL MEMBERS

The Division did not pay any compensation to the members of the St. Bernard Parish Council.

NOTE 13 - CONTINGENCIES

The Division is named as a defendant in a number of lawsuits arising principally from claims related to personal injury, negligence, and property damage. As discussed in Note 14, the Division is primarily self-insured with respect to claims of these types. The Division's insurance department and its attorneys have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the Division and to arrive at an estimate, if possible, of the amount or range of potential loss to the Division.

As a result of such a review, loss contingencies, which could be reasonably estimated, have been categorized as "probable", "reasonably possible", and "remote", as defined in Governmental Accounting Standards Board Codification Section C50 -- Claims and Judgments. Loss contingencies for the Division for "probable cause" cases amounting to \$334,200 have been accrued in the Division's Enterprise Fund. The Division's "reasonably possible" loss contingencies at December 31, 2001 for which an amount of liability can be estimated are not reflected in the financial statements.

The Division is currently involved in a class action lawsuit. In April of 2000, St. Bernard Parish District Court certified the claimant's request to deem the suit as a class action suit, and the class certification has since been upheld by the Court of Appeals. The Division is covered for up to \$1,000,000 of loss, but until the Court further defines the injured classes of claimants, there is no method to predict possible exposure.

ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001

NOTE 14 - SELF INSURANCE/RISK MANAGEMENT

The Division is exposed to various risks of loss related to general liability, auto liability, workers' compensation, unemployment compensation, property and group health benefits. Various suits and claims arising from personal injury and property damage, some for substantial amounts, are pending against the Division, its insurers and others. In accordance with Statement of Financial Accounting Standards No. 5, the Division has provided for, in its financial statements, estimated losses from the aforementioned pending suits and claims based on the estimated ultimate cost of settling the claims, considering the effects of inflation, recent claim settlement trends and other social and economic factors, including the effect of specific incremental claim adjustment expenses, salvage and subrogation. The Division believes the ultimate settlement costs will not materially exceed the amounts provided for the claims.

The Division was self insured for hospitalization claims up to approximately \$20,000 per employee or an aggregate of approximately \$231,000 claims per year until July 2000. The excess was insured under an insurance policy. An independent insurance service company administered the fund. The Division is no longer self-insured for hospitalization.

The estimated claims liability is computed based on information received from the administrator of the plan. The following represents a reconciliation of total claims liability:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Claims liability at beginning of year	\$ 627	\$ 138,794	\$ 60,566
Plus provision for incurred claims	-	120,555	320,799
Less claims paid	<u>(627)</u>	<u>(258,722)</u>	<u>(242,571)</u>
Claims liability at end of year	<u>\$ -</u>	<u>\$ 627</u>	<u>\$ 138,794</u>

Effective February 1, 1997, the Division established a self-insurance fund for their workman's compensation, unemployment compensation, general and automobile liability. The Division is self insured for claims up to \$250,000 per occurrence. They have an insurance policy for claims between \$250,000 and \$5,000,000 per occurrence. An independent insurance service company administers the fund.

Estimated claims liability related to the current year's general liability, auto and workers compensation was determined by using the average annual claims expense incurred for each type of coverage.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2001**

NOTE 14 - SELF INSURANCE/RISK MANAGEMENT (CONTINUED)

The following represents a reconciliation of total claims liability:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Claims liability at			
beginning of year	\$ 484,743	\$ 595,232	\$ 188,776
Plus provision for incurred claims	937,557	60,484	518,619
Less claims paid	<u>(613,588)</u>	<u>(170,973)</u>	<u>(112,163)</u>
Claims liability at end of year	<u>\$ 808,712</u>	<u>\$ 484,743</u>	<u>\$ 595,232</u>

NOTE 15 - ADMINISTRATIVE ORDER

During 1996, the Division received an administrative order from the United States Environmental Protection Agency (EPA). The order stated that the Division has violated its National Pollutant Discharge Permit and the Clean Water Act. The EPA has allowed the Division a reasonable period to take corrective action to eliminate and prevent recurrence of the noncompliant discharges cited in the findings or to submit a comprehensive plan to eliminate and prevent recurrence of violations cited in the findings.

As of December 31, 2001, the Division has filed a response to the deficiencies cited in the order and has placed into operation all improvements necessary to obtain compliance. However, the EPA has not officially cleared the Division of the violations. The Division may be assessed up to \$27,500 per day in penalties for noncompliance to the order. There have been no assessments by the EPA or penalties accrued in the general purpose financial statements.

COMBINING BALANCE SHEET

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

December 31, 2001

ASSETS	Water and Sewer Division	Water District		Sewerage District		Total
		No. 1	No. 2	No. 1	No. 2	
Current						
Cash and cash equivalents	\$ 674,221	\$ -	\$ -	\$ -	\$ -	\$ 674,221
Customer receivables, net of allowance for doubtful accounts of \$44,846	598,574	-	-	-	-	598,574
Unbilled charges	567,211	-	-	-	-	567,211
Grant receivables	162,750	-	-	-	-	162,750
Inventory	146,476	-	-	-	-	146,476
Prepaid expenses	15,391	-	-	-	-	15,391
Total current assets	2,164,623	-	-	-	-	2,164,623
Restricted Assets						
Cash and cash equivalents:						
Revenue bond debt service reserve	1,398,639	-	-	-	-	1,398,639
Revenue bond debt service account	593,643	-	-	-	-	593,643
Capital renewal and replacement and system improvements accounts	6,893,805	-	-	-	-	6,893,805
Sales tax bond debt service reserve	934,951	-	-	-	-	934,951
Sales tax bond debt service account	94,618	-	-	-	-	94,618
Construction fund	2,451,398	-	-	-	-	2,451,398
Inflow and infiltration	1,705,377	-	-	-	-	1,705,377
Other debt service accounts	-	86,905	116,629	163,866	452,952	820,352
Customer meter deposits	450,129	-	-	-	-	450,129
Sales tax receivable	634,957	-	-	-	-	634,957
Ad valorem taxes receivable	-	-	-	96,516	323,253	419,769
Total restricted assets	15,157,517	86,905	116,629	260,382	776,205	16,397,638
Property, Plant and Equipment, Net of Accumulated Depreciation	43,047,438	9,761,525	625,167	1,911,866	2,012,139	57,358,135
Unamortized Debt Expense	279,577	-	-	3,723	34,552	317,852
Totals assets	\$ 60,649,155	\$ 9,848,430	\$ 741,796	\$ 2,175,971	\$ 2,822,896	\$ 76,238,248

See notes to combined financial statements.

SUPPLEMENTARY INFORMATION SECTION

	Water and Sewer Division	Water District		Sewerage District		Total
		No. 1	No. 2	No. 1	No. 2	
LIABILITIES						
Current						
Payable from current assets:						
Accounts payable	\$ 1,858,446	\$ -	\$ -	\$ 21	\$ -	\$ 1,858,467
Uninsured claims payable	7,929	-	-	-	-	7,929
Self insurance claims payable	0	-	-	-	-	-
Lease payable	1,000	-	-	-	-	1,000
Salaries payable	58,935	-	-	-	-	58,935
Due to (from) other funds	365,535	68,653	-	-	-	434,188
Due to St. Bernard Parish Self Insurance Fund	0	-	-	-	-	-
Total current liabilities payable from current assets	2,291,845	68,653	-	21	-	2,360,519
Payable from restricted assets:						
Accounts payable	932,954	-	-	-	-	932,954
Bonds payable	1,165,000	-	-	85,000	340,000	1,590,000
Accrued interest payable	101,687	-	-	3,763	22,265	127,715
Customer deposits	1,285,563	-	-	-	-	1,285,563
Inspection deposits	13,300	-	-	-	-	13,300
Total current liabilities payable from restricted assets	3,498,504	-	-	88,763	362,265	3,949,532
Long-Term Liabilities:						
Accrued vacation leave	235,397	-	-	-	-	235,397
Bonds payable	13,455,000	-	-	90,000	685,000	14,230,000
Total long-term liabilities	13,690,397	-	-	90,000	685,000	14,465,397
Total liabilities	19,480,746	68,653	-	178,784	1,047,265	20,775,448
FUND EQUITY						
Contributed Capital	8,543,028	3,362,425	-	882,056	1,018,243	13,805,752
Retained Earnings						
Reserved:						
Reserve for Contracts	5,413,127	-	-	-	-	5,413,127
Capital renewal and replacement and system improvements	3,763,066	-	-	-	-	3,763,066
Construction	19,450,850	-	-	-	-	19,450,850
Debt service	1,471,871	-	-	-	-	1,471,871
Inflow and infiltration	2,466,428	-	-	-	-	2,466,428
Unreserved	60,039	6,417,352	741,796	1,115,131	757,388	9,091,706
Total retained earnings	32,625,381	6,417,352	741,796	1,115,131	757,388	41,657,048
Total fund equity	41,168,409	9,779,777	741,796	1,997,187	1,775,631	55,462,800
Total liabilities and fund equity	\$ 60,649,155	\$ 9,848,430	\$ 741,796	\$ 2,175,971	\$ 2,822,896	\$ 76,238,248

COMBINING STATEMENT OF REVENUES AND EXPENSES

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the year ended December 31, 2001

	Water and Sewer Division	Water District		Sewerage District		Total
		No. 1	No. 2	No. 1	No. 2	
Operating Revenues						
User fees	\$9,896,974	\$ -	\$ -	\$ -	\$ -	\$ 9,896,974
Other operating revenues	3,502,259	-	-	1,814	2,665	3,506,738
Total operating revenues	<u>13,399,233</u>	<u>-</u>	<u>-</u>	<u>1,814</u>	<u>2,665</u>	<u>13,403,712</u>
Operating Expenses						
Personal services and related benefits	2,677,880	-	-	-	-	2,677,880
Utilities	1,048,602	-	-	-	-	1,048,602
Contractual services, supplies, and materials	1,884,257	-	-	957	-	1,885,214
Professional services	101,812	-	-	-	-	101,812
Insurance and claims expense	1,187,507	-	-	-	-	1,187,507
Depreciation and amortization	1,429,992	328,211	39,382	274,959	322,273	2,394,817
Other	436,699	-	-	-	-	436,699
Total operating expenses	<u>8,766,749</u>	<u>328,211</u>	<u>39,382</u>	<u>275,916</u>	<u>322,273</u>	<u>9,732,531</u>
Operating Income (Loss)	<u>4,632,484</u>	<u>(328,211)</u>	<u>(39,382)</u>	<u>(274,102)</u>	<u>(319,608)</u>	<u>3,671,181</u>
Nonoperating Revenues (Expenses)						
Sales tax	3,524,808	-	-	-	-	3,524,808
Ad valorem tax for debt retirement	-	-	-	107,418	353,537	460,955
Interest earnings:						
Restricted assets	248,931	3,175	4,261	3,634	18,112	278,113
Current assets	396,787	-	-	-	-	396,787
Interest expense and bank fees	(818,266)	-	-	(12,078)	(70,238)	(900,582)
Deductions from ad valorem taxes for debt retirement	(141,353)	-	-	(3,214)	(10,504)	(155,071)
Total nonoperating revenues (expenses)	<u>3,210,907</u>	<u>3,175</u>	<u>4,261</u>	<u>95,760</u>	<u>290,907</u>	<u>3,605,010</u>
Net Income (Loss)	<u>\$7,843,391</u>	<u>\$ (325,036)</u>	<u>\$ (35,121)</u>	<u>\$ (178,342)</u>	<u>\$ (28,701)</u>	<u>\$ 7,276,191</u>

**COMBINING STATEMENT OF CHANGES IN FUND EQUITY
(RETAINED EARNINGS AND CONTRIBUTED CAPITAL)**

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
and the Districts**

For the year ended December 31, 2001

	Water and Sewer Division	Water District		Sewerage District		Total
		No. 1	No. 2	No. 1	No. 2	
Contributed Capital, Beginning of Year	\$ 8,654,736	\$ 3,475,481	\$ -	\$ 1,006,993	\$ 1,133,142	\$ 14,270,352
Other - donated lines	424,047	-	-	-	-	424,047
Depreciation of assets purchased with contributed capital	<u>(535,755)</u>	<u>(113,056)</u>	<u>-</u>	<u>(124,937)</u>	<u>(114,899)</u>	<u>(888,647)</u>
Contributed Capital, End of Year	<u>8,543,028</u>	<u>3,362,425</u>	<u>-</u>	<u>882,056</u>	<u>1,018,243</u>	<u>13,805,752</u>
Retained Earnings, Beginning of Year	24,246,236	6,629,332	776,917	1,168,536	671,190	33,492,211
Net income (loss)	7,843,390	(325,036)	(35,121)	(178,342)	(28,701)	7,276,190
Depreciation of assets purchased with contributed capital	<u>535,755</u>	<u>113,056</u>	<u>-</u>	<u>124,937</u>	<u>114,899</u>	<u>888,647</u>
Retained Earnings, End of Year	<u>32,625,381</u>	<u>6,417,352</u>	<u>741,796</u>	<u>1,115,131</u>	<u>757,388</u>	<u>41,657,048</u>
Fund Equity, End of Year	<u>\$ 41,168,409</u>	<u>\$ 9,779,777</u>	<u>\$ 741,796</u>	<u>\$ 1,997,187</u>	<u>\$ 1,775,631</u>	<u>\$ 55,462,800</u>

COMBINING STATEMENT OF CASH FLOWS

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the year ended December 31, 2001

	Water and Sewer Division	Water District		Sewerage District		Total
		No. 1	No. 2	No. 1	No. 2	
Cash Flows From Operating Activities						
Operating income (loss)	\$ 4,632,484	\$ (328,211)	\$ (39,382)	\$ (274,102)	\$ (319,608)	\$ 3,671,181
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	1,429,992	328,211	39,382	274,959	322,273	2,394,817
Increase in assets:						
Customer receivables	(152,868)	-	-	-	-	(152,868)
Unbilled charges	51,690	-	-	-	-	51,690
Grant receivables	(162,750)	-	-	-	-	(162,750)
Inventory	-	-	-	-	-	-
Prepaid expenses	9	-	-	-	-	9
Increase in liabilities:						
Accounts payable and accruals	2,048,315	-	-	68,654	-	2,116,969
Total adjustments	3,214,388	328,211	39,382	343,613	322,273	4,247,867
Net cash provided by operating activities	7,846,872	-	-	69,511	2,665	7,919,048
Cash Flows From Capital Financing Activities						
Ad valorem taxes - debt retirement	(141,353)	-	-	102,001	500,307	460,955
Sales tax	3,524,808	-	-	-	-	3,524,808
Purchase of capital assets	(13,008,215)	-	-	-	-	(13,008,215)
Principal paid on bonds	(1,035,000)	-	-	(75,000)	(336,000)	(1,446,000)
Interest paid	(776,590)	-	-	(13,653)	(110,339)	(900,582)
Net cash provided by (used in) capital financing activities	(11,436,350)	-	-	13,348	53,968	(11,369,034)
Cash Flows From Investing Activities						
Interest on cash management activities	645,718	3,175	4,261	3,634	18,112	674,900
Net Increase in Cash and Cash Equivalents	(2,943,760)	3,175	4,261	86,493	74,745	(2,775,086)
Cash and Cash Equivalents						
Beginning of year	18,140,541	83,730	112,368	77,373	378,207	18,792,219
End of year	\$ 15,196,781	\$ 86,905	\$ 116,629	\$ 163,866	\$ 452,952	\$ 16,017,133
Reconciliation to balance sheet accounts:						
Unrestricted Cash	\$ 674,221	\$ -	\$ -	\$ -	\$ -	\$ 674,221
Revenue bond debt service reserve	1,398,639	-	-	-	-	1,398,639
Revenue bond debt service account	593,643	-	-	-	-	593,643
Capital renewal and replacement and system improvements accounts	6,893,805	-	-	-	-	6,893,805
Sales tax bond debt service reserve	934,951	-	-	-	-	934,951
Sales tax bond debt service account	94,618	-	-	-	-	94,618
Construction fund	2,451,398	-	-	-	-	2,451,398
Inflow and infiltration	1,705,377	-	-	-	-	1,705,377
Other debt service accounts	-	86,905	116,629	163,866	452,952	820,352
Customer meter deposits	450,129	-	-	-	-	450,129
Cash and cash equivalents, end of year	\$ 15,196,781	\$ 86,905	\$ 116,629	\$ 163,866	\$ 452,952	\$ 16,017,133

SCHEDULE OF ANNUAL DEBT SERVICE REQUIREMENTS

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

December 31, 2001

Years	Water and Sewer Division 1999 Sales Tax Bonds			Water and Sewer Division 2001 and 1994 Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2002	310,000	501,830	811,830	840,000	259,542	1,099,542
2003	330,000	485,245	815,245	885,000	219,422	1,104,422
2004	345,000	467,590	812,590	925,000	176,879	1,101,879
2005	365,000	449,132	814,132	970,000	130,711	1,100,711
2006	390,000	429,605	819,605	1,015,000	81,399	1,096,399
2007	410,000	408,740	818,740	110,000	28,851	138,851
2008	435,000	386,805	821,805	110,000	23,472	133,472
2009	460,000	363,532	823,532	120,000	18,093	138,093
2010	485,000	338,922	823,922	120,000	12,225	132,225
2011	515,000	312,975	827,975	130,000	6,357	136,357
2012	545,000	285,423	830,423	-	-	-
2013	575,000	256,265	831,265	-	-	-
2014	605,000	225,502	830,502	-	-	-
2015	645,000	193,135	838,135	-	-	-
2016	680,000	158,628	838,628	-	-	-
2017	720,000	122,248	842,248	-	-	-
2018	760,000	83,728	843,728	-	-	-
2019	805,000	43,068	848,068	-	-	-
Total debt service requirements	<u>\$ 9,380,000</u>	<u>\$ 5,512,373</u>	<u>\$ 14,892,373</u>	<u>\$ 5,225,000</u>	<u>\$ 956,951</u>	<u>\$ 6,181,951</u>

Sewer Districts Nos. 1 and 2 Public Improvement Bonds			Total Principal	Total Interest	Total
Principal	Interest	Total			
425,000	64,410	489,410	1,575,000	825,782	2,400,782
425,000	36,998	461,998	1,640,000	741,665	2,381,665
180,000	17,245	197,245	1,450,000	661,714	2,111,714
170,000	5,653	175,653	1,505,000	585,496	2,090,496
-	-	-	1,405,000	511,004	1,916,004
-	-	-	520,000	437,591	957,591
-	-	-	545,000	410,277	955,277
-	-	-	580,000	381,625	961,625
-	-	-	605,000	351,147	956,147
-	-	-	645,000	319,332	964,332
-	-	-	545,000	285,423	830,423
-	-	-	575,000	256,265	831,265
-	-	-	605,000	225,502	830,502
-	-	-	645,000	193,135	838,135
-	-	-	680,000	158,628	838,628
-	-	-	720,000	122,248	842,248
-	-	-	760,000	83,728	843,728
-	-	-	805,000	43,068	848,068
<u>\$ 1,200,000</u>	<u>\$ 124,306</u>	<u>\$ 1,324,306</u>	<u>\$ 15,805,000</u>	<u>\$ 6,593,630</u>	<u>\$ 22,398,630</u>

**SCHEDULE OF COMPUTATION OF THE RATIO OF
NET REVENUES (EXCLUDING WATER AND SEWER DISTRICTS)
TO AVERAGE ANNUAL DEBT SERVICE**

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
and the Districts**

For the year ended December 31, 2001

Division operating revenues	\$ 13,403,712
Add nonoperating revenue - interest earned on current assets	<u>396,787</u>
Total revenues available	<u>13,800,499</u>
Division operating expenses	9,732,531
Less depreciation and amortization	<u>2,394,817</u>
Total adjusted expenses	<u>7,337,714</u>
Net revenues	<u><u>\$ 6,462,785</u></u>
Average annual debt service requirement	<u><u>\$ 1,244,368</u></u>
Ratio of net revenues to average annual debt service requirement	<u>5.19</u>

SCHEDULE OF METERED CUSTOMERS

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
and the Districts**

December 31, 2001

(Unaudited)

At December 31, 2001, the St. Bernard Parish Government Department of Public Works Water and Sewer Division had 24,539 metered customers.

SINGLE AUDIT SECTION

REBOWE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
CONSULTANTS

A PROFESSIONAL CORPORATION

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE COMBINED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the St. Bernard Parish Council,
Chalmette, Louisiana.

We have audited the combined financial statements of the **St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts** (the "Division"), as of and for the year ended December 31, 2001, and have issued our report thereon dated June 21, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Division's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Division's internal control over combined financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Division's combined financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Division's ability to record, process, summarize, and report financial data consistent with the assertions of management in the

combined financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as item 01-01 through 01-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the combined financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that two of the reportable conditions described above are material weaknesses. These material weaknesses are described in the accompanying schedule of findings and questioned costs as items 01-01 through 01-02.

This report is intended solely for the information of the Administration of St. Bernard Parish Government, the St. Bernard Parish Council, the State of Louisiana and the Legislative Auditor for the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties.

Reboue & Company

June 21, 2002

REBOWE & COMPANY

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the St. Bernard Parish Council,
Chalmette, Louisiana

Compliance

We have audited the compliance of the **St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts** (the "Division"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2001. The Division's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Division's management. Our responsibility is to express an opinion on the Division's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Division's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Division's compliance with those requirements.

In our opinion, the Division complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2001.

Internal Control Over Compliance

The management of the Division is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Division's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Administration of the St. Bernard Parish Government, the St. Bernard Parish Council, the State of Louisiana, the Legislative Auditor for the State of Louisiana, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Rebowe & Company

June 21, 2002

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
and the Districts**

For the Year Ended December 31, 2001

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency		
EPA Wastewater Assistance Agreement	16.606	<u>3,255,000</u>
Total U.S. Environmental Protection Agency		<u>3,255,000</u>
Total Expenditures of Federal Awards		<u><u>\$ 3,255,000</u></u>

See accompanying notes to schedule of expenditures of federal awards.

**NOTES TO SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS**

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
and the Districts**

For the Year Ended December 31, 2001

NOTE 1 - SCOPE OF AUDIT PURSUANT TO *GOVERNMENT AUDITING STANDARDS*, OMB CIRCULAR A-133, "AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS" AND THE SINGLE AUDIT ACT OF 1984 AND 1996 AMENDMENTS

All federal grant operations of the St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts (the "Division"), are included in the scope of the single audit. Those programs which were major grants and which were selected for specific testing included:

Environmental Protection Agency (EPA) Wastewater Assistance Agreement (CFDA No. 66.606)

NOTE 2 - FISCAL PERIOD AUDIT

Single audit testing procedures were performed for program transactions occurring during the year ended December 31, 2001.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when the Division has met the qualifications for the respective grants. Costs incurred in programs partially funded by federal grants are applied against federal grant funds to the extent of revenue available when they properly apply to the grant.

2. ACCRUED AND DEFERRED REIMBURSEMENT

Various reimbursement procedures are used for federal awards received by the Division. Consequently, timing differences between expenditures and program reimbursements can exist at the beginning and end of the year. Accrued balances at year end represent an excess of reimbursable expenditures over cash reimbursements and expenditures will be reversed in the remaining grant period.

SCHEDULE OF FINDINGS

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the Year Ended December 31, 2001

Section I - Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the **St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts**.
2. Three reportable conditions relating to the audit of the financial statements is reported in the *Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of **St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts** are reported.
4. No reportable conditions relating to the audit of internal control over major federal awards programs are reported in the *Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs for the **St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts** expresses an unqualified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for the **St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts** are reported in this schedule.
7. The programs tested as major programs include:

CFDA Number(s)

Name of Federal Program (or Cluster)

66.606

EPA Wastewater Assistance Agreement

SCHEDULE OF FINDINGS (CONTINUED)

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the Year Ended December 31, 2001

Section I - Summary of Auditor's Results (Continued)

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. **St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts** was determined to be a high-risk auditee.

Section II - Financial Statement Findings

Internal Control

01-01 Condition – The Department of Finance lacks a comprehensive fixed asset and capital project policy.

- Capital project expenditures within the Water & Sewer Division are treated as additions to the fixed asset and capital project assets.
- Upon replacement of fixed assets and water and sewer line piping, removal of the replaced fixed asset water and sewer piping from the general ledger accounting records is not recorded.
- Fixed asset subsidiary ledgers are not reconciled to the general ledger on a monthly basis.

Criteria – Fixed asset and capital project subsidiary ledgers should be reconciled to the general ledger on a monthly basis for all additions, deletions, and transfers.

- Capital project expenditures should not to be recognized as an asset until they are complete.
- When the Water & Sewer Division replaces fixed assets and sections of piping, the replaced asset or portion of piping must be adjusted and removed from the general ledger accounting records.

SCHEDULE OF FINDINGS (CONTINUED)

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the Year Ended December 31, 2001

Section II - Financial Statement Findings (Continued)

Internal Control (Continued)

01-01 (Continued)

- Fixed asset and capital project subsidiary ledgers should be reconciled to the general ledger on a monthly basis for all additions, deletions, and transfers.

Effect – Fixed assets and capital projects may be misstated within the general ledger accounting records during the year.

- Assets and capital project assets may be overstated. Depreciation and accumulated depreciation may be overstated because assets are being depreciated before they are completed.
- The Water & Sewer Division's assets may be overstated, the depreciation expense and accumulated depreciation accounts may be overstated.
- Fixed assets and capital projects may be misstated within the general ledger accounting records during the year.

Cause –The Water and Sewer Division lacks a comprehensive fixed asset and capital project management policy.

Recommendation – The Department of Finance should prepare a comprehensive fixed asset and capital project management policy that will guide employees in performing the following procedures:

- Determine when capital project expenditures should be capitalized and subsequently depreciated.

SCHEDULE OF FINDINGS (CONTINUED)

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the Year Ended December 31, 2001

Section II - Financial Statement Findings (Continued)

Internal Control (Continued)

01-01 (Continued)

- State that all fixed asset deletions within the governmental funds will be recorded as a corresponding decrease in the General Fixed Asset Account Group. Expenditures in the governmental funds will not be reversed and will remain unchanged.
- Replaced fixed assets should be removed from the asset subsidiary ledger, and the accumulated depreciation should be removed as well. The replaced asset should not continue to be depreciated. The asset subsidiary ledger account is then adjusted for the new fixed asset and the asset is properly depreciated over its estimated useful life.
- In order to address the replacement of piping within the water and sewer lines, the Department of Finance must determine a value for the piping using either weighted average, first-in first-out, or last-in last-out methods or utilize the specific identification method. In doing so, whenever the piping is replaced, the replaced piping must be removed from the subsidiary ledger using a method much like the fixed asset method above, and the new piping is treated as the replacement fixed asset.
- The fixed asset subsidiary ledger should be reconciled to the general ledger accounting records on a monthly basis for both the Parish and the Water & Sewer Division. In doing so, all deletions, additions, and transfers will be recorded in a timely manner. In addition, the fixed asset reconciliation should be reviewed monthly by someone one level above the preparer.

Management's Response -- See management's corrective action plan for their response.

SCHEDULE OF FINDINGS (CONTINUED)

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the Year Ended December 31, 2001

Section II - Financial Statement Findings (Continued)

Internal Control (Continued)

01-02 Condition -- Self-insurance monthly loss run reports are not being reconciled to the general ledger.

Criteria -- Monthly loss run reports must be reconciled to the general ledger to prevent material misstatement of liability accounts.

Effect -- Liabilities in the general ledger accounting records may be understated.

Cause -- The Department of Finance does not currently have someone assigned to perform this duty.

Recommendation -- The Department of Finance should delegate the reconciliations between the general ledger accounting records and the monthly loss run reports and bank account statements on a monthly basis. In addition, an employee one level above the employee performing the reconciliations should review the reconciliations.

Management's Response -- See management's corrective action plan for their response.

01-03 Condition - Currently the Division does not prepare a reconciliation of the meter deposit general ledger control account and the subsidiary ledger.

Criteria - The meter deposit payable general ledger account should be reconciled to the meter deposit subsidiary ledger on a monthly basis.

Effect - At December 31, 2001, there is a difference between the general ledger control and subsidiary ledger account balances. The general ledger account balance exceeded the subsidiary ledger account balance in the amount of \$42,201.

Cause - Management oversight.

SCHEDULE OF FINDINGS (CONTINUED)

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
and the Districts**

For the Year Ended December 31, 2001

Section II - Financial Statement Findings (Continued)

Internal Control (Continued)

01-03 (Continued)

Recommendation - The Division should continue to investigate and correct differences between the meter deposit subsidiary and general ledger. In the prior year, the difference between the subsidiary ledger and the general ledger was \$28,132. Reconciliations should be prepared on a monthly basis.

Management's Response - See Management's Corrective Action Plan for their response.

Compliance

No compliance findings material to the combined financial statements were noted during the audit for the year ended December 31, 2001.

Section III - Federal Award Findings and Questioned Cost

No findings or questioned costs relative to federal awards were noted during the audit for the year ended December 31, 2001.

REPORTS BY MANAGEMENT

SCHEDULE OF PRIOR YEAR FINDINGS

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the Year Ended December 31, 2001

Section I - Internal Control and Compliance Material to the Combined Financial Statements

Internal Control

00-1 Recommendation- The Division should continue to investigate and correct differences between the meter deposit subsidiary and general ledger. Reconciliations should be prepared on a monthly basis.

Management's Response – Unresolved, see Finding 01-03.

Compliance

No compliance findings material to the combined financial statements were noted during the audit for the year ended December 31, 2000.

Section II - Internal Control and Compliance Material To Federal Awards

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts did not receive federal awards during the year ended December 31, 2000.

MANAGEMENT'S CORRECTIVE ACTION PLAN

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the Year Ended December 31, 2001

Section I - Internal Control and Compliance Material to the Combined Financial Statements

Internal Control

01-01 Recommendation – The Department of Finance should prepare a comprehensive fixed asset and capital project management policy that will guide employees in performing the following procedures:

- Determine when capital project expenditures should be capitalized and subsequently depreciated.
- State that all fixed asset deletions within the governmental funds will be recorded as a corresponding decrease in the General Fixed Asset Account Group. Expenditures in the governmental funds will not be reversed and will remain unchanged.
- Replaced fixed assets should be removed from the asset subsidiary ledger, and the accumulated depreciation should be removed as well. The replaced asset should not continue to be depreciated. The asset subsidiary ledger account is then adjusted for the new fixed asset and the asset is properly depreciated over its estimated useful life.
- In order to address the replacement of piping within the water and sewer lines, the Department of Finance must determine a value for the piping using either weighted average, first-in first-out, or last-in last-out methods or utilize the specific identification method. In doing so, whenever the piping is replaced, the replaced piping must be removed from the subsidiary ledger using a method much like the fixed asset method above, and the new piping is treated as the replacement fixed asset.
- The fixed asset subsidiary ledger should be reconciled to the general ledger accounting records on a monthly basis for both the Parish and the Water & Sewer Division. In doing so, all deletions, additions, and transfers will be recorded in a timely manner. In addition, the fixed asset reconciliation should be reviewed monthly by someone one level above the preparer.

MANAGEMENT'S CORRECTIVE ACTION PLAN (CONTINUED)

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts

For the Year Ended December 31, 2001

Section I - Internal Control and Compliance Material to the Combined Financial Statements

Internal Control

01-01 (Continued)

Management's Response -- When St. Bernard Parish consumed the Water and Sewer Board in the late 90's, the board had numerous problems with the accounting of fixed assets. The Finance Department continues its efforts to address these issues. Many of the findings listed by the auditors were issues that St. Bernard Parish had notified the auditors of occurring, in an attempt that they would assist the Parish in eliminating. Administration will implement specific procedures to rectify the comment. The expansion of the accounting staff will further the resolution of the audit finding.

01-02 Recommendation -- The Department of Finance should delegate the reconciliations between the general ledger accounting records and the monthly loss run reports and bank account statements on a monthly basis. In addition, an employee one level above the employee performing the reconciliations should review the reconciliations.

Management's Response -- Procedures were implemented in previous years to review and reconcile the loss run reports of the self-insurance administrators. Those policies must be expanded to assure that the reconciliation includes the general ledger of the Division. Administration will abide to the recommendation of the auditors.

01-03 Recommendation - The Division should investigate and correct the difference of \$42,201 between the meter deposit subsidiary ledger and meter deposit general ledger account. Also, reconciliations should be prepared on a monthly basis.

Management's Corrective Action -- The Finance Department is reviewing the variance in the subsidiary ledger and will make the appropriate corrections to ensure that the account reconciles with the general ledger.

MANAGEMENT'S CORRECTIVE ACTION PLAN (CONTINUED)

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
and the Districts**

For the Year Ended December 31, 2001

Section I - Internal Control and Compliance Material to the Combined Financial Statements

Compliance

No compliance findings material to the combined financial statements were noted during the audit for the year ended December 31, 2000.

Section II - Internal Control and Compliance Material To Federal Awards

No audit findings or instances of noncompliance relative to federal awards were noted.